

Chapter Eight: Payroll Deduction Program

The Payroll Deduction Program

The Payroll Deduction Program (PDP) allows members to pay for optional contributions to TRS with before-tax dollars via payroll deduction. Members may request that their employer make payroll deductions to pay for their optional service, to repay refunded service, to pay for their 2.2 upgrade charge, or to pay for an estimated ERO (Early Retirement Option) balance.

By choosing this payment method, members can reduce their taxable salary because deductions are made on a before-tax basis. Because the monthly payroll deduction is considered a “pick up” by the employer, the amount is not subject to federal and state income taxes in that year.

Employers are required by law to offer this program to their full-time employees and to transmit the amounts deducted from the member’s salary to TRS on a monthly basis.

Maintaining Payroll Deduction Program records for state and federal tax reporting purposes is also the responsibility of the employer.

Benefits of the Payroll Deduction Program

Participation in the Payroll Deduction Program reduces a member’s taxable income. Because a member will not have paid federal income taxes on the payroll deduction contribution, this type of payment will be taxed after a member retires.

The Economic Growth and Tax Relief Reconciliation Act of 2001 has liberalized the laws governing the tax deferral of income. However, the member may wish to check with a financial advisor to determine if participation in the Payroll Deduction Program might reduce the amounts he/she is allowed to contribute to their 403(b) tax-sheltered annuity or their 457(b) deferred compensation plan.

Conditions of the program

State and federal laws require the Payroll Deduction Program to meet the following conditions:

- Members must be employed full-time (i.e., four hours per day, five days per week) with the employer.
- The irrevocable agreement signed by the employer and the member may be terminated only when all required payments have been made; upon the member’s death, disability, or retirement; or upon termination of the member’s employment with the employer who entered into the agreement.
- The amount to be deducted from the member’s compensation and the member’s payroll cycle may not be changed during the term of the agreement.
- The minimum monthly deduction amount allowed is \$50.
- Participation in the program may only start at the beginning of each calendar year quarter (i.e., January 1, April 1, July 1, and October 1) if the agreement is for periodic payments.
- Members may not make direct payments or rollovers to TRS during the length of the Payroll Deduction Agreement for balances covered by a PDP.



Entering into a PDP

To participate in this program, the member must first establish an optional contribution balance with TRS, an estimated ERO balance, or request a 2.2 upgrade. An optional contribution balance may be established with TRS if the member is eligible to purchase optional service credit or repay refunded service or eligible to retire under ERO.

When the member contacts TRS about payroll deduction for optional service, ERO, and/or 2.2 upgrade payments, TRS will provide the member with information about the Payroll Deduction Program along with various payment options. At the time the member elects to participate in this program, TRS will prepare and forward to the member an Irrevocable Agreement for the Payroll Deduction of Optional Contributions based on the member's instructions. After signing the agreement, the member will forward it to the employer for acceptance and signature. (See sample agreement at end of chapter.)

Full-time TRS members may enter into an agreement and begin participation in the Payroll Deduction Program effective at the beginning of each calendar year quarter (January 1, April 1, July 1, October 1) for periodic payments. A PDP for a single lump-sum payment can be made effective on the first of any month.

TRS issues payroll deduction agreements up to the 10th day of the month prior to the quarterly start date (i.e., through March 10 for the quarter beginning April 1) except for the quarter beginning July 1. Because many employers run summer payrolls in May and June, TRS issues July 1 start date agreements through May 15. Employers may also establish and communicate to their employees their own internal cut-off dates for accepting agreements for a particular start date.

The employer should review the agreement and verify the following information:

- The agreement has been signed and dated by the member and presented to the employer prior to the start date.
- The member's salary is sufficient to cover the monthly deduction.
- The member is employed full-time.
- The member's payroll cycle is correct. The payroll cycle of a PDP agreement is equal to the number of calendar months that a deduction is made.
- The employer name and number are correct.
- The agreement has not been altered in any way.

If all of the above information on the agreement is correct, the employer must sign the agreement and return a copy of the agreement to TRS. This serves as notification that the member is participating in the Payroll Deduction Program. The copy should be returned before the 20th of the month prior to the start date of the agreement to be shown on the Employer Bill and prior to taking any deductions. The actual agreement that reflects both member and employer signatures must be kept on file by the employer.

If the agreement has been altered in any way, or the member has presented the agreement to you after you have run payrolls for the first month of an agreement, return the agreement to the member and advise them to contact TRS for a new payroll deduction agreement.

An agreement may be revoked by the member up to the date that the first deduction has been made by the employer. For example, a member enters into an agreement with an enrollment date of April 1. The first deduction from the member's paycheck does not occur until April 15. The member may cancel the PDP agreement up to April 15. Once the first deduction has occurred, the PDP agreement becomes irrevocable.

Employer remittance of PDP payments to TRS

As the employer, you are responsible for remitting to TRS once each month the total amount deducted from the participating members' salaries. This monthly amount is due to TRS by the 10th of the month following the month in which the deduction was made. PDP payments must be remitted to TRS via the Electronic Funds Transfer (EFT) system. See Chapter 4 for more information about the EFT program and remitting payments.

When making your remittance, please follow these guidelines:

- Remit the total amount owed for the month for all participating members **once** per month. You may deduct from the member's salary more than once a month; however, please remit to TRS only once per month. The amount of the monthly payment to TRS must remain constant, regardless of the number of payroll deductions made during the month. Do not send payments for a member prior to the member's enrollment date.
- With each remittance, please return the TRS Remittance Form that you received for the current month. Include the EFT reference number and debit date. The Payroll Deduction Program Employer Bill should be reconciled to match your payment. Please note any changes, additions, or deletions on the bill. The bill should only be returned if changes have been made. Fax the form, and bill if applicable, prior to the debit date to the TRS Accounting Department at (217) 753-0969.
- If you generate July and August payroll checks in June, members paid over 12 months may receive their July and August payroll checks in June or they may receive their July and August payroll checks in July and August. **However, the remittance to TRS for the payroll deductions must be made once per month and sent to TRS monthly.**
- Federal law requires that the full monthly amount be deducted and remitted to TRS on a monthly basis. The remittance for the deductions from the July payroll checks is due to TRS by August 10, and the remittance for the deductions from the August payroll checks is due to TRS by September 10, regardless of when the deductions are taken. Do not prepay these amounts to TRS. Deductions are based on the irrevocable payroll deduction agreement and are not related to the teaching contract or to when the salary is actually paid.

Verifying payment information

The amount you remit each month on behalf of participating members will be reflected on your monthly Employer Statement. Please review this statement each month to verify that TRS is



applying the payments as you intended and notify us of any discrepancies. Members do not receive receipts each time a payment is processed. It is up to you to ensure that payments are remitted and applied correctly.

Suspension of PDP agreements

If a member is not receiving salary from the employer and is promised renewed employment at the end of the period or has the right of re-employment, a PDP agreement can be suspended for a period of time not to exceed one year. An example of this situation would be a teacher going on a leave of absence or on temporary disability for a year or less. Please notify TRS if this type of situation occurs. Members with suspended agreements will be shown on your Payroll Deduction Program Employer Bill each month. Please notify TRS if the member's status changes.

Terminating PDP agreements

Termination of PDP agreements occurs only when all required payments have been made; upon the death, disability, or retirement of the member; or upon termination of the member's employment with the employer who entered into the agreement. As the employer, you should not make any payroll deductions after a member's retirement date or termination date. If TRS has been notified, the change will be indicated on your bill. If you are aware of any changes, simply note the differences before returning the bill.

It is important that you notify TRS when a death, disability, retirement, or termination of the member's employment occurs to end a member's payroll deduction agreement. This can be done by noting final payment information on the Payroll Deduction Program Employer Bill that you return with each payment.

PDP completion

Approximately three months prior to the completion of the member's payroll deduction agreement, TRS will notify you of the final payment due dates and the amounts due on the PDP Final Payment Report (see sample report in Chapter 4). The last month's payment may be less than the regular monthly payment. As the employer, you are responsible for discontinuing the payroll deduction when the member's balance with TRS is paid in full. It is important that you follow the information on the Final Payment Report.



Irrevocable Agreement for the Payroll Deduction of Optional Contributions

John Q. Sample
100 East Main Street
Post Office Box 54321
Little Town IL 12345-6789

Social Security number: 999-99-9999
Date of birth: 02/25/1946
Home telephone number: (999) 999-9999
Work telephone number: (999) 999-9999
Work extension number: 99999

Any unauthorized alterations to this agreement render it null and void.

I, the undersigned member in the retirement program administered by the Teachers' Retirement System of the State of Illinois (TRS), hereby

1. declare my intention to make optional contributions in the approximate amount of \$1,165.87 indicated below by having my employer pick up these optional contributions pursuant to Internal Revenue Code, Section 414(h)(2), and other applicable law. (The final amount of interest due will be determined at the conclusion of this agreement.)
2. authorize my employer to reduce my salary in the amount of \$130.00 per month beginning with my first pay period after April 1, 2004, the enrollment date, until the principal thereon is paid. Monthly deductions will continue until the principal thereon is paid in full, approximately December 2004. **However, the end date and any applicable interest may be different if TRS receives a payment after the date on which the estimate was made; if payments are partially paid, late, missed; or if the agreement is suspended.**
3. confirm that I am employed on a full-time basis (*i.e.*, four clock hours per day, five days per week).
4. understand and agree to the terms and conditions on the reverse side of this page.
5. understand and agree that the principal is based upon an estimate, dated July 15, 2004, which was previously given to me and represents the amount due for the 2.000 years of 2.2 upgrade.

Member's signature

Date (*must be prior to enrollment date*)

Acceptance by Employer:

On behalf of the below-named employer of the above-named member, I accept this irrevocable payroll agreement. I also confirm that the member is employed on a full-time basis. Accordingly, the below-named employer shall pick up these contributions in accordance with Internal Revenue Code, Section 414(h)(2), and other applicable law and forward once per month said contributions to the Teachers' Retirement System of the State of Illinois prior to the 10th day of the month following the month in which the deduction is made.

PDP agreement number:	123456	Monthly payment:	\$130.00
Service type:	2.2 Upgrade	Approximate end date:	December 2004
Total estimated payable:	\$1,165.87	Payroll cycle:	9-months
Enrollment date:	April 1, 2004	Month(s) member is excluded from payment:	June, July, and August

If TRS does not receive this form prior to March 20, 2004, the above payroll deduction for John Q. Sample will not be listed on your March 2004 billing statement. Please include the above information regarding this deduction on your billing statement for reconciliation.

Signature of authorized representative of employer

Date (*must be prior to enrollment date*)

Employer's printed name: All American School District

TRS code: 999-9999

Employer should keep original agreement for its records. Employer must return a **signed copy** of the agreement to TRS to confirm participation in the program.

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TERMS AND CONDITIONS

The maximum length of this agreement shall not exceed 60 months from the August 15 following the date on which the upgrade application was made.

The minimum monthly payment must equal the lesser of the amount owed or \$50.00.

The deductions are to remain constant with the exception of the final payment, which may be less than the previous fixed amount.

My employer is obligated to make payment pursuant to this agreement only to the extent that there are sufficient funds from my earnings to do so after any other mandatory deductions.

While this agreement is in effect, no additional payments can be made by the member or employer towards this agreement.

These payments through payroll deduction are in addition to the contributions required to be made to TRS.

Periodic payroll deductions will begin effective the first pay period following the first day of the calendar quarter (*i.e.*, October 1, January 1, April 1, July 1) after my employer accepts this agreement.

This agreement is irrevocable once my employer accepts it and makes the first payroll deduction. This agreement shall continue until my retirement, death, disability, termination of my current employment status, or until payment is made in full.

The agreement is for an upgrade and if it is terminated prior to payment in full, the rules of TRS shall apply.

This agreement may be suspended for a period of time not to exceed one year if a member is not receiving salary from the employer and is promised renewed employment at the end of the period or has the right of re-employment.